

## **SUPPORT**

March 31, 2009

### ***STATE RETIREMENT SYSTEMS STAFF REPORT ON LEGISLATION AFFECTING THE STATE EMPLOYEES' RETIREMENT SYSTEM***

*96th General Assembly*

#### **HOUSE BILL 3964 – Representative Graham**

#### **PROPOSAL**

House Bill 3964 amends the State Employees' Article of the Pension Code to allow a member who purchases service credit for a period of leave of absence to have earnings credited during the period of leave. If no contributions are required to establish service credit for the period of leave, the bill allows members to establish earnings for the period of leave by making the applicable employee and employer contributions (normal cost), plus interest, at 8.5% annually, from the date the leave began to the date of payment.

#### **COMMENT**

Currently, when SERS members purchase service credit for periods of leaves of absence, service credit is established, but those months or partial months are not credited with earnings. Upon retirement, in calculating a member's final average salary for the highest consecutive 48 months of compensation, months with no earnings are excluded, but months with reduced earnings are included. Therefore, when service credit is established for short leaves of absence, a member's final average salary may be reduced, thereby providing a lower monthly benefit to the member.

HB 3964 provides that SERS members who purchase service credit for a period of leave of absence will have earnings credited during the period of leave. If a leave of absence is too short to require the employee to make contributions to establish service credit for the period of leave, HB 3964 allows members to establish earnings for the period of leave by making the applicable employee and employer contributions (normal cost), plus interest, at 8.5% annually, from the date the leave began to the date of payment. The earnings will be credited at the employee's rate of the compensation on the day before the leave began.

HB 3964 will have no impact on State contributions to SERS or the financial impact of the System.

#### **RECOMMENDATION**

It is the recommendation of the staff that the system support House Bill 3964.